

## Introduction

Employment has been one of the most important topics in Europe's history over times. The goal to achieve full employment is desirable for every country in the European Union, but it is more than clear that this goal is unreachable. It is impossible to get full employment and people have accepted the fact that there will always be unemployed people. Politicians and scientists usually say that an unemployment rate which would not cause a significant damage to the whole country would be a rate of around 5% from working-aged population. Nowadays, after the economical crisis in Europe, the unemployment rate has grown much more than 5% in most of the countries.<sup>1</sup> How to save Europeans from poverty and social exclusion? How to save countries from bankruptcy on the one hand and, on the other hand, still manage to keep them as welfare states? These are the questions which several citizens and politicians have been asking themselves.

To improve the labour market and achieve a higher employment rate, the European Union has worked out a policy called the "European Employment Strategy". With this strategy, the European Union has worked out ways how to successfully start decreasing unemployment. After every country of the European Union adopts its requirements, the unemployment rate shall start decreasing and the employment rate shall increase. The measures taken in order to fill the requirements are called "active labour market policies". This contribution focuses on the different active labour market policies which have been worked out through the European Employment Strategy, on their purposes and on how they should help to improve the situation of the European Union's labour market.

This contribution will end with an overview of Portugal and Estonia's active labour market policies. There we describe the tendencies towards active labour market policies in Estonia and Portugal and we present a brief overview on the active labour market policies which are mostly used in those countries.

## 1. The situation of the European Union's labour market

In terms of active labour market policies, it is vital to describe the situation of the European Union's labour market after the economical crises in recent years. This contribution focuses on the unemployment rate and compares the rates of the European Union, the Euro area, Estonia and Portugal. The last two were chosen in order to compare the author's home country with Portugal, both of the countries belonging to the euro area<sup>2</sup>.

Before we describe the unemployment rate, it is important to explain the meaning of the expression "unemployment rate".<sup>3</sup>

---

\* Bachelor from the University of Tallinn, Estonia. Erasmus student at *Universidade Portuguesa Infante D. Henrique* in the academic year 2011/12. This contribution corresponds to an adapted version of the paper delivered within the discipline "The United States of Europe: past, present and future" and it was done under the scientific supervision of Marta Santos Silva.

<sup>1</sup> European Commission, 2011.

<sup>2</sup> All the data published in this contribution are based on the European Commission's Eurostat. The data concern the year of 2011, as there is no previously published data.

<sup>3</sup> Eurostat uses the International Labour Office's definition of unemployment rate, considering that it represents "unemployed persons as a percentage of the labour force" (European Commission, 2011).

According to Eurostat, the unemployment rate in European Union was 10,0% in the end of the year 2011.<sup>4</sup> Comparing the euro area with the European Union, where the unemployment rate was 10,6%, it can be said that the situation in the European Union is better than in the euro area.<sup>5</sup> It is quite odd, because usually one thinks the more countries in an union the lower should be the unemployment rate, but in this case it is vice versa. However, that fact can be symptomatic of the situation of the euro area, which is facing some serious problems with the stability of euro.

Focusing on Estonia and Portugal, it is easy to see that although Estonia is a smaller country, its labour market statistics are better. In the end of 2011 the unemployment rate in Estonia was 11,7%, while in Portugal it was 14,6%.<sup>6</sup> Some people may think that it is a small difference, but if we compare the population of those countries, we see that in Estonia there is 1,3 million people, while in Portugal 10,5, which is almost ten times more. Of course this number also comprises the people who are not counted in the labour force, like children and pensioners, but all in all this statistic shows that Portugal's situation is hard. Although Estonia's rates are better than the portuguese rates, both countries are facing bigger unemployment rates than the European Union or the euro area in general. Both of the countries need to react and start developing policies to improve their employment.

The above-mentioned statistic was about the general unemployment rate, but we can also focus on the unemployment rate of females and males. For example, in the European Union the unemployment rate of men was 9,9% and in Euro area it was 10,4%, which is slightly more than in the European Union.<sup>7</sup> For woman it was 10,1% in European Union and 10,8% in Euro area.<sup>8</sup> If we focus on the two countries, we see that in Estonia the unemployment rate for men was 12,6% and in Portugal it was 14,7%. So again we can see that Estonia's rate is smaller than Portugal's, but both countries have bigger rates than the European Union or the euro area in general.

In the case of woman, the unemployment rate in Estonia was 10,8% and in Portugal 14,5%.<sup>9</sup> In this case it is easy to notice that, again, the Euro area has a bigger unemployment rate than the European Union, but this time Estonia's unemployment rate is similar to the Euro area and the European Union unemployment rate. Portugal, however, still has a significantly bigger unemployment rate, which can be present an enormous threat to the country's and citizens' welfare.

The examples given can illustrate how important a general strategy would be, in order to decrease the unemployment rate in the European Union. If the labour market policies and different strategies are properly adapted to all the countries, it will be easy to achieve goals and decrease unemployment rates in every country of the European Union.

## 2. European Employment Strategy

An important part of the European Union labour policies is the European Employment Strategy. It consists of a document which sets goals to the labour market by setting the employment targets for the European Union members.

The targets are that 75% of people aged 20-64 should be active on the labour market, school drop-out rates should be less than 10% and more people in the age of 30-34 should be completing third level education. Another target is that there should be a reduction of "at least

---

<sup>4</sup> European Commission, 2011.

<sup>5</sup> IDEM, *Ibidem*.

<sup>6</sup> IDEM, *Ibidem*.

<sup>7</sup> IDEM, *Ibidem*.

<sup>8</sup> IDEM, *Ibidem*.

<sup>9</sup> IDEM, *Ibidem*.

20 million people in or at risk of poverty and social exclusion”.<sup>10</sup> The aim is to promote life-long learning and, through it, increase the employment rate. Through working, people manage to stay out from risk of poverty or social exclusion. So in the beginning all the countries should promote life-long learning, because it leads them to all the other goals.

To help improving life-long learning and help people to get better qualifications in case they have lost their work and are not able to study due to financial problems, it is important to have some programs for unemployed so that they can easily return to the labour market. For those cases, countries have worked out active labour market policies to maintain welfare for unemployed people. These policies are also an important part of the European Employment Strategy.<sup>11</sup>

### 3. Active labour market policies

There are 27 member states in the European Union and in each there are several different labour market programs. The homepage of the Organization of Economical Co-operation and Development defines “active labour market policies” as the methods used to help unemployed people getting back to work.<sup>12</sup> Labour market policies are usually divided into six categories. These are used by the most popular international organizations, like the European Union or the Organization of Economical Co-operation and Development.<sup>13</sup> All the definitions can be founded on their statistical web pages.

#### 3.1. Labour market training and classroom training

The first category is called “labour market training” and it involves measures like on-the-job training, work experience and classroom training. The idea of those measures is usually to provide more general education (like computer courses, language courses etc) or specific vocational skills (technical and manufacture skills or similar).<sup>14</sup> The main goal is to produce better qualifications and increase the skills of the unemployed people. It is a typical measure of active labour market policies.

Through training measures and work experience, one can keep people’s working habits so that when they return to the labour market they do not find difficult to stay there. If people have stayed away from labour market for more than a year, it is extremely hard to restore their working habits. People may find it difficult to manage in a new environment, and to work again for a long period of time, so it is important to keep their working habits while they are unemployed. After participating in different on-the-job trainings, they will have no difficulties in working again and they would have also gained some experience and qualifications during the unemployment period.

Although voluntary work and on-the-job training are not real jobs for unemployed people, they still make these people more attractive to employers and make it more likely for them to get full employment.

Another measure that can attract employers is classroom training. Different training programs are good to increase people’s qualifications. New skills are always positive if people want to go up on their career ladder, but for unemployed people, all the classroom trainings can give an advantage over the others who have not participated in any active labour market programs and services.

---

<sup>10</sup> IDEM, *Ibidem*.

<sup>11</sup> IDEM, *Ibidem*.

<sup>12</sup> Organisation of Economical Co-operation and Development, 2011.

<sup>13</sup> Kluge, 2005.

<sup>14</sup> IDEM, *Ibidem*.

### 3.2. Private sector incentive programs

The first type of active labour market policies (labour market training) was meant directly for unemployed people. The second type of active labour market policies is meant for private sector, particularly, for employers.

Private sector incentive programs mainly involve wage subsidies.<sup>15</sup> The main idea of wage subsidies is to support employers to pay wages to their employees. However, the subsidies are not meant for employees in general, they are meant for the employees who were former unemployed and, by promoting wage subsidies to employers, countries intend to attract the employers to hire unemployed people. Through the help of the government it is easier for employers to pay wages and, in the end, employers find it easy and useful to hire long-term unemployed people. Nowadays, it is a common way of thinking that long-term unemployed do not have a good qualification and it is not good for the company/employer to hire a long-term unemployed person. That is why countries are promoting active labour market policies. If European Union works out good strategies and programs for the unemployed, it is easy to break that outdated idea. After acquiring new qualifications in different labour market programmes and services, unemployed people (long and short-termed) will be much more skilled than they were before becoming unemployed.

There are currently three types of wage subsidies. One of them is direct wage subsidies to employers. These aim to prevent unemployment by hiring unemployed workers and to maintain that job for the worker. The second one is financial incentives to workers for a limited period of time, to encourage them to keep their job and to stay in the labour market. The third one is meant for unemployed individuals who start their own business. The idea is to give them those grants and advisory support for a fixed period of time, to be sure that they will succeed and stay in the labour market. By creating their own businesses, they will not only enter the labour market but also create new jobs, which will also help decreasing general unemployment.<sup>16</sup>

### 3.3. Direct employment programs in the public sector

Besides programs for the unemployed within the private sector, it is also important to pursue employment in the public sector. The public sector is pursuing active labour market policies by providing public works or public activities for the unemployed which will produce goods or services for the community.<sup>17</sup>

Public sector programs are usually meant for unemployed disadvantaged people and they provide simple jobs for them, so that they can keep in contact with the labour market and do not lose their working habits or their skills. It is also important in the context of human capital resources. After a long time of unemployment and without any activation programs, it is predictable that unemployed people lose their specific skills and knowledge. The loss of skills and knowledge also leads to the loss of human capital in the community and that is very difficult to recover, especially in a world where the population is aging and where is major importance to have productive workforce.

There is usually one big „but“ in providing jobs in the public sector. Most of the jobs are specially created for that period of time and for those exact unemployed people who are participating in a program. In fact, without a “real” participation in labour market, unemployed people will not gain any new skills or experiences. These measures consist of “artificial jobs” which will never work.

---

<sup>15</sup> IDEM, *Ibidem*.

<sup>16</sup> IDEM, *Ibidem*.

<sup>17</sup> IDEM, *Ibidem*.

### 3.4. Services and sanctions

The fourth and last type of typical active labour market policies are services and sanctions. These are one of the well-known types of active labour market policies, which include different job search programs and training, which teach how to be successful while searching for a job.<sup>18</sup> The main goal of those services is to make job matching process more efficient and it encompasses all the measures which this contribution has been focusing on. It is important to resort to different measures and programs together, so that they will give the best solution possible: a high employment rate and highly qualified workers in the labour market.

### 3.5. Youth programs and measures for the disabled

Besides all those four fields of active labour market policies (different programs, measures and services) it is important to focus on two special types of labour market policies which have been worked out to decrease youth unemployment and unemployment among disabled individuals. Young and/or disabled people have the biggest difficulties in entering the labour market and that is why it is very important to have programs which are specially made for them.

Nowadays, youth unemployment is a serious problem in the European Union. In 2010 the youth unemployment was more than 20% in Europe. Portugal and Estonia also had a very high unemployment rate, 22% and 32%, respectively.<sup>19</sup> In hard economical situations the rates had changed, but it is still easy to see that the labour market situation in Europe is extremely complicated.

Youth programs are similar to general programs for unemployed. They involve different measures like training programs, wage subsidies and job search assistance.<sup>20</sup> All three are considered the most important types of help for young people. Different training programs for improving young people's skills are invaluable, because nowadays there is a tendency to think that young people who do not have any working experience are not as good employees as older and experienced employees. Although young people do not have any experience, they are familiar with new technologies and new approaches to their specialization. The other problem is: if nobody is willing to hire young people with no experiences, then where should they get their experience from?

To promote employers to hire young people, governments have worked out wage subsidies for young unemployed people. Those wage subsidies are similar to general wage subsidies, but they make it more attractive for employers to hire young people. It is important that the wage subsidies are sufficient, because otherwise employers have no motivation to hire young people, especially if the employer thinks negatively about young employees.

The third method is job search assistance.<sup>21</sup> One of the serious problems of unemployment is lack of knowledge, of where and how to search for a job. There is a very big competition in European Union labour market, so it is vital to know how to present yourself and your best skills to employers. The aim of the job search assistance is not only to help people find employers who need their skills and knowledge, but also to teach how to "survive" in the labour market and be able to enter the labour market successfully. With different assistance and training programs it is easy to learn how to present one's individual skills to employers, so that they would see all the positive qualities an unemployed person has.

Besides special programs to young unemployed people, there are also specific programs for disabled people. Services which are meant for disabled unemployed people are vocational rehabilitation, sheltered work programs or wage subsidies for individuals with physical, mental

<sup>18</sup> IDEM, *Ibidem*.

<sup>19</sup> Organisation of Economical Co-operation and Development, 2010.

<sup>20</sup> Kluge, 2005.

<sup>21</sup> IDEM, *Ibidem*.

or social disabilities.<sup>22</sup> The targets of those programs are very similar to the purposes of the programs which are meant for young people.

The aim of the vocational rehabilitation and sheltered work programs is to help disabled unemployed people to have higher qualification and to maintain their work on the labour market. It is important to have different programs and measures for disabled people, otherwise they will get socially isolated and it will be very hard to get them back to labour market. It will also be a loss of human capital.

The purpose of the wage subsidies is the same in every program. The main goal is to make hiring unemployed people more attractive to employers and through this measure increase employment and, therefore, decrease unemployment. Wage subsidies are important, because even if the wages do not increase, it would still be a great opportunity for the employee to secure his or her position.

Nowadays, all kinds of government interventions in the labour market are important, given that the later is facing a crisis. It is important to improve the individual's skills, thus making possible that they will be hired more easily.

#### **4. Active labour market policies in practice**

Active labour market policies are important in every European Union country, because due to European Employment Strategy, all of them must work out active labour market policies to increase unemployment and shorten the period of unemployment.

All the measures and programs described before consist of “frames” for the real active labour market policies. In practice, most of the countries combine different programs and measures, in order to fit in the specific labour market situation of that country.

If different programs are combined and improved, then it is more likely that they will succeed. As this contribution focuses on the European Union's active labour market policies and also on Estonia's and Portugal's cases, it is important to give a brief overview on those countries' active labour market policies.

##### **4.1. Estonia's active labour market policies**

Estonia has many active labour market programs which are being provided through National Institution of Labour Market (in Estonian “Eesti Töötukassa”). It provides many different active labour market services and subsidies.

Most common labour market measures are job training, classroom training, job search assistance and wage subsidies for employers. Also it is very common that people apply for subsidies to create their own business or try to participate in career counselling.<sup>23</sup>

In general, active labour market policies are not very popular in Estonia. Usually people only resort to programs if they cannot find work by themselves. After the economical crisis and the big growth of unemployment, people have started to use active labour market measures and programs more frequently: it is difficult to find work by themselves and they want to get better qualifications and become active again.

##### **4.2. Portugal's active labour market policies**

Portugal also started to work out active labour market policies when the European Union started dealing with unemployment through activation strategies. Portugal had worked out its active labour market policies in the middle on 2000's. In 2008, it started to reform its active

---

<sup>22</sup> IDEM, *Ibidem*.

<sup>23</sup> Eesti Töötukassa, 2012.



labour market policies, to make them more efficient.<sup>24</sup> The main problem with active labour market policies is that countries are investing a lot of money in them but the output is small, because they are not very popular among people.

At first, active labour market policies in Portugal were made to support unemployed people, but nowadays Portugal has started working out active labour market policies. The most popular measures consist of vocational training, wage subsidies and other different training programs, because in Portugal there is a lack of vocational skills in the labour market.<sup>25</sup>

## Conclusion

Active labour market policies are gathering more and more attention. In a difficult economical situation, it is important to work out new and effective programs and launch measures to decrease unemployment and shorten the period of unemployment.

Unemployment rates have been the highest since the 1990's and it is important to strengthen people's skills and qualifications while they are unemployed.

All countries have started working out different programs to decrease unemployment and to follow the rules of the European Employment Strategy. Four classical categories of active market policies were adopted by the countries; different measures and programs were mixed, so that they would fit in the labour market of each particular country. After successfully adopting the labour market policies, it is possible that the situation in the labour market starts to stabilize. In terms of the ageing population, it is important to use effectively all the human capital Europe has and to make them as productive as possible.

It is important to work out new programs and measures to make labour market more effective and stable. If active labour market policies are improved in a way that they will fit with the labour market expectations, it is more than likely that active labour market policies will reduce unemployment.

It is easy to predict a great future for the active labour market policies in theory, but the most important question is whether they will "survive" and succeed in practice. If active labour market policies reach, in practice, their goal, then they can become one of the most important policy fields in the labour market.

## Bibliography

*Eesti Töötukassa*. (2012). Retrieved 04 25, 2012, from Tööturuteenus: <http://www.tootukassa.ee/index.php?id=11317>

*European Commission*. (2011). Retrieved 04 17, 2012, from Employment, social affairs & inclusion: <http://ec.europa.eu/social/main.jsp?catId=101&langId=en>

*European Commission*. (2011). Retrieved 04 17, 2012, from Employment, social affairs & inclusion: <http://ec.europa.eu/social/main.jsp?catId=101&intPagId=1471&langId=en>

*European Commission*. (2011, 03). Retrieved 04 17, 2012, from Harmonised unemployment rate by gender – total – % (seasonally adjusted): <http://epp.eurostat.ec.europa.eu/tgm/web/table/description.jsp>

*European Commission*. (2011, 03). Retrieved 04 17, 2012, from Harmonised unemployment rate by gender: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSlection=1&plugin=1>

*Eurostat*. (2011, 03). Retrieved 04 17, 2012, from Employment rate by gender, age group 15-64 – %: <http://epp.eurostat.ec.europa.eu/tgm/web/table/description.jsp>

<sup>24</sup> Organisation of Economical Co-operation and Development, 2008.

<sup>25</sup> Main features of the labour policy in Portugal, 2007.

Kluve, J. (2005). *Study on the effectiveness of ALMPs*. Essen: RWI Essen.

Main features of the labour policy in Portugal. (2007, 02). *IET Working Papers Series* .

*Organisation of Economical Co-operation and Development*. (2008). Retrieved 04 25, 2012, from Economical Survey of Portugal in 2008: [http://www.oecd.org/document/4/0,3746,en\\_2649\\_34321\\_40873604\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/4/0,3746,en_2649_34321_40873604_1_1_1_1,00.html)

*Organisation of Economical Co-operation and Development*. (2010). Retrieved 04 24, 2012, from LFS by sex and age- youth unemployment: [http://stats.oecd.org/Index.aspx?DataSetCode=LFS\\_SEXAGE\\_I\\_R](http://stats.oecd.org/Index.aspx?DataSetCode=LFS_SEXAGE_I_R)

*Organisation of Economical Co-operation and Development*. (2011). Retrieved 04 24, 2012, from Active labour market policies and activation strategies: [http://www.oecd.org/document/5/0,3746,en\\_2649\\_33927\\_38938757\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/5/0,3746,en_2649_33927_38938757_1_1_1_1,00.html)